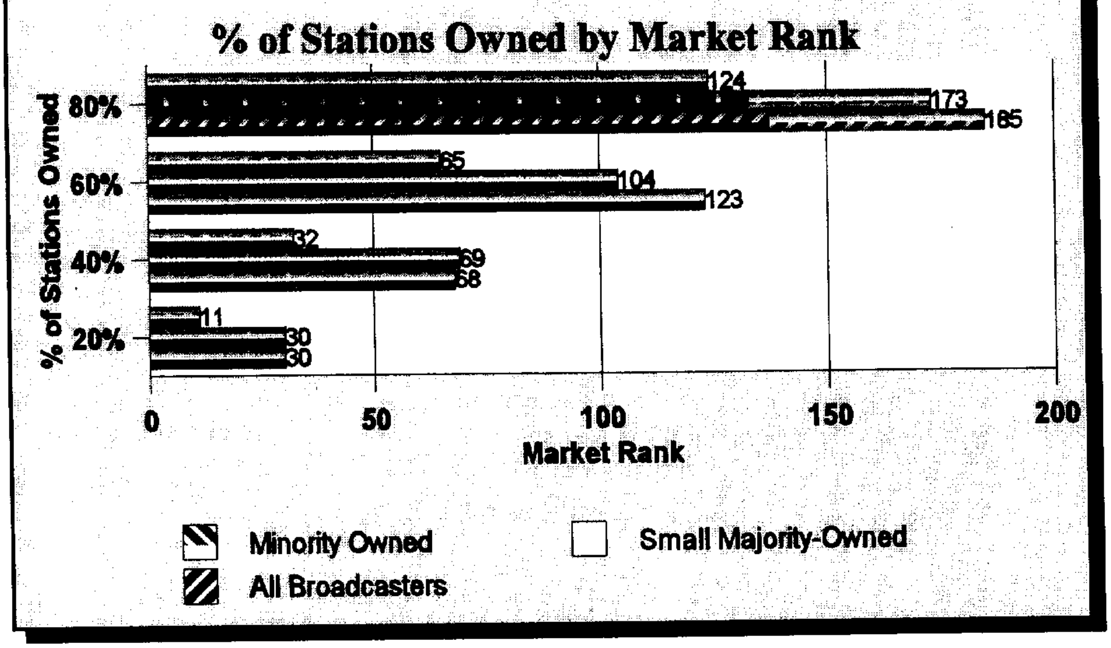
Chart L



Data: BIA MasterAccess, August 1997 edition.

When the data presented in Table 2 is separated into markets 100 and below and markets above 100, the revenue comparisons indicate that minority broadcasters average 51% above their small majority competitors in the top 100 markets, but earn on average slightly less than small majority competitors in markets 101 through 265 (See Tables 3 and 4).

Table 3 Markets: 1- 100

Comparison of Minority and Majority Broadcasters by Format
(All figures are averages. Currency in thousands)

(number of stations)	'97 Nat. Rev.	# Stat.	'96 Stat. Rev.	Power Ratio
General Formats	$207,285	57.9	$3,567	1.11
Majority Owned - All (1666)	$211,219	58.9	$3,610	1.11
Majority Owned - Small (890)	$25,794	8.0	$2,500	1.08
Minority Owned - All (33)	$8,664	7.6	$1,416	0.86
Minority Targeted Formats	$107,385	29.0	$2,555	0.89
Majority Owned - All (207)	$147,066	39.3	$2,707	0.94
Majority Owned - Small (115)	$11,067	5.6	$1,447	1.01
Minority Owned - All (85)	$107,450	5.0	$2,185	0.77

Data: BIA MasterAccess, August 1997 edition

Although the revenue comparisons differ for the top 100 markets and markets above 100, the power ratios of small majority broadcasters in both market segments are superior to that of minority broadcasters—1.01 versus 0.77 in the top 100 markets and 0.97 versus 0.94 in markets above 100 *(see* Table 4).

Table 4 Markets: 101 - 265

Comparison of Minority and Majority Broadcasters by Format
(All figures are averages. Currency in thousands)

(number of stations)	'97 Nat. Rev.	# Stat.	'96 Stat. Rev.	Power Ratio
General Formats	$47,671	26.6	$783	1.21
Majority Owned - All (1627)	$47,840	26.6	$785	1.22
Majority Owned - Small (1398)	$4,920	6.9	$717	1.22
Minority Owned - All (33)	$8,664	7.6	$1,416	0.86
Minority Targeted Formats	$34,821	18.9	$517	0.95
Majority Owned - All (90)	$46,445	24.0	$545	0.96
Majority Owned - Small (78)	$1,961	3.9	$436	0.97
Minority Owned - All (78)	$1,073	3.0	$435	0.94

Data: BIA MasterAccess, August 1997 edition

Revenue performance may also be influenced by consolidation by a few minority owners. NTIA found in its 1998 minority ownership report, that the number of stations owned by minorities increased 0.1% in 1997-1998 from 2.8% of all U.S. commercial broadcast stations to 2.9%, reflecting a net gain of 15 stations.[216] However, the number of minority broadcasters decreased by 17. Gains in stations owned were due to incumbent minorities acquiring additional properties, particularly growth by a small number of Hispanic broadcasters.[217]

As a whole, the radio industry has undergone tremendous change. The FCC's staff report, "Review of the Radio Industry, 1997," which examined data from March 1996 to November 1997,

[216] NTIA, "Minority Commercial Broadcast Ownership in the United States," August 1998, page. 1.

[217] *Id.*, at 5.

found that the number of owners of commercial radio stations declined by 11.7%, primarily due to mergers between existing owners.[218] As section II-C-3 indicates, consolidation affects average station revenue, although its impact on power ratios is less direct.

d. Cost Per Point as a Measure of Advertising Performance

In order to better understand the disparities in power ratio performance, CRF compared the cost per rating point for general market and urban stations. As fully explained in the appendix, the cost per point is the cost of advertising to one percent of the listening audience (*see* Overview of Media Planning, Appendix A). A general market cost per point is based upon the cost of reaching one percent of the entire metro audience. Black listeners are a subset of the metro audience. In terms of general market cost per point, advertisers pay a lower rate to reach the smaller Black population (compare Black CPP and Metro CPP of Table 8). However, an accurate analysis requires a comparison of the cost to reach an equal number of people in both markets. To facilitate this, CRF converted the cost per point to the cost per thousand (i.e. the cost to reach one thousand people) for several markets in which large numbers of Blacks reside.

The following table provides the size of the population for one percent of the Black population and the total metro market population. For each market the table also provides the cost per rating point (CPP) and the cost per thousand (CPM) for Blacks and the total metro market (CRF was not able to obtain data for the Spanish market).[219]

CRF's analysis of seven major markets indicates that the cost of an advertisement based upon the urban cost per point is greater than the general market cost per point. In other words, advertisers pay more to advertise to Blacks, if the Black cost per point is the basis of the calculation. For the New York market, the metro and Black costs per point convert to $7 to reach one thousand Blacks and $4.51 to reach one thousand listeners in the total metro market. The Los Angeles metro and Black costs per point convert to $22.48 to reach one thousand Blacks and $8.50 to reach one thousand people in the total metro market. The results of this analysis do not support the power ratio comparisons presented in Table 2.

[218] *Id.*, at 4, citing Federal Communications Commission, Staff Report, "Review of the Radio Industry, 1997," 13 FCC Rpt. 11276 (1998).

[219] Metro market cost per point data for Table 8 was obtained from the Media Market Guide (3rd Quarter 1997) published by Media Market Resources Inc. 1997 Black cost per point data was provided by the Research Department of The Interep Store. Population data for the metro markets was obtained from The Media Audit (January-December 1997) published by International Demographics. Cost per thousand (CPM) was calculated by dividing the cost per point by one per cent of the population size and multiplying the result by 1,000.

Table 5
Comparison of Costs to Reach One Thousand Listeners:
Black vs. General market Listeners

Adults
Age 25 - 54
(frequency = 1)

	1% Black. Population	Black CPP	Black CPM	1% Metro Population	Metro CPP	Metro CPM
New York	13,993	100.2	7.16	78,880	356	4.51
Chicago	6,856	62.2	9.07	38,500	221	5.74
Wash. DC	5,582	68.0	12.18	21,660	208	9.60
Los Angeles	4,519	101.6	22.48	55,030	468	8.50
Atlanta	4,480	74.0	16.52	17,740	166	9.36
Detroit	4,226	54.6	12.92	20,130	147	7.30
Philadelphia	3,994	42.4	10.62	21,610	196	9.07

Data: The Media Audit, The Media Market Guide, The Interep Store

CRF discussed these inconsistencies with the Director of Urban Marketing for Interep, Sherman Kizart. Spot advertisements based upon the Black cost per point, in his estimation, account for only five to ten percent of the revenues of urban-formatted stations. In many cases urban-formatted stations are faced with dictates not to buy urban.[220]

CRF also discussed these matters with Judy Ellis, Senior Vice President of Emmis Radio and General Manager of three Emmis Radio stations in the New York metro market. Advertisements based upon the Black cost per point, according to Ms. Ellis, are very favorable for her urban formatted station WRKS. However, such buys are only typical of advertisers that are interested in targeting their products to the Black consumer (e.g. fast food companies). Other advertisers (*i.e.* firms that consider the general market their primary focus and the minority consumer a secondary priority), pay less to advertise on stations that target the minority listeners—even in cases where Blacks are avid consumers of the products.[221]

As an example, Ms. Ellis compared costs per point offered to two Emmis Radio station stations—one urban and the other jazz/new age. The offers were based upon the general market cost per point and originated from the buying service of a well-known bedding and mattress retailer.

[220] Interview with Sherman Kizart, The Interep Radio Store, October 1, 1998.

[221] Telephone interview with Judith Ellis, Emmis Broadcasting, October 5, 1998.

Jazz/new age radio station WQCD was offered $365 per point, while WRKS, which had a larger audience share, was offered $330.

Qualitative data also showed that urban and Spanish station listeners led the market in terms of bedding and mattress consumption. Specifically, WRKS listeners were 29% more concentrated in the qualifying criteria—"planning to buy bedding or mattress within a year"—than the average adult in the market. Other urban and Spanish formatted stations ranked 51% (WBLS), 32% (WQHT), and 24% (WSKQ) in terms of plans to buy a mattress or bedding. Jazz station WQCD which received an offer of $360 ranked 7%.[222]

In summary, advertisements based upon the Black cost per point are more valuable than the general market cost per point. It appears, however, that the inferior advertising performance of minority-formatted stations can be explained by the fact that such rates are seldom obtained, as well as the failure on the part of some advertisers to pay the same general market cost per point to both general market and minority-formatted stations.

Discounted general market costs per point appear to account for some of the performance disparities between general market and minority-formatted stations. CRF attempted to obtain documentation that such practices are systematic. However, the ad agencies and national rep firms contacted were unwilling to permit access to records that indicate the cost per point that advertisers pay on a per market basis. Research undertaken as a follow-up to this study should endeavor to obtain such useful information by means of the subpoena powers of the federal government, if necessary.

The factor of ownership size also appears to have a bearing on advertising performance. Table 7 indicates that majority-owned stations tend to be part of larger group operations. 1997 estimated national revenues for the majority owners averaged $233.8 million for general market stations and $196.5 million for minority-formatted stations. These figures dwarf the estimated average national revenues of minority broadcasters—$9.9 million for general market stations and $13.6 million for minority-formatted stations.

The next section examines economic disparities between majority and minority broadcasters that may be linked to the number of stations owned nationwide and locally.

3. The Impact of Ownership Size on Advertising Performance.

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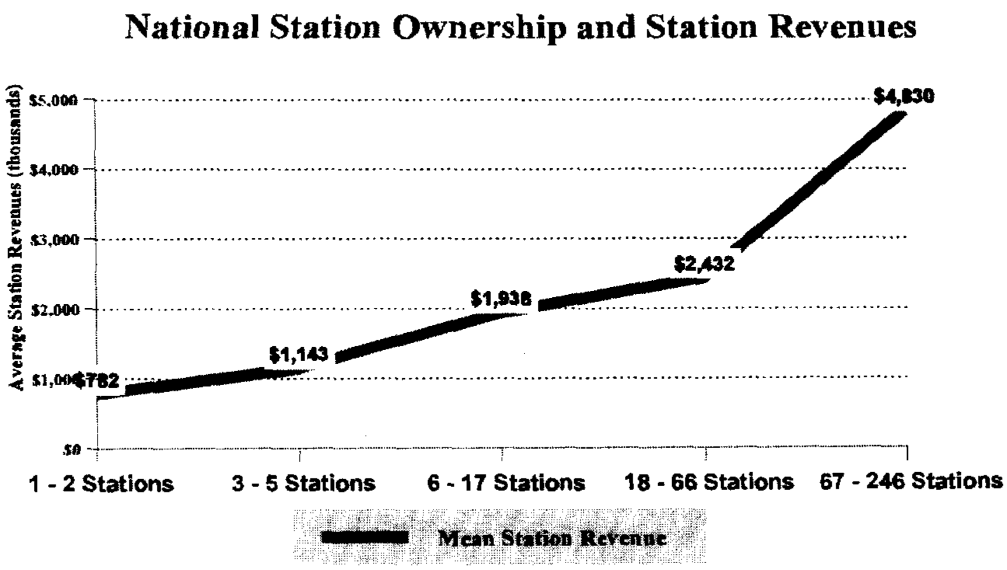
[222] Scarborough Qualitap Report, New York, March 1997- February 1988, on file with CFR.

For this analysis CRF examined a universe of 3,745 radio stations.[223] Charts M and N suggest a positive correlation between station performance and the number of stations owned. An increase in station ownership in both the national and local markets appears to translate into increased performance for the individual stations owned by the parent company. Station performance was measured by two variables: average station revenues and power ratio.[224]

Chart M



Data: BIA Master Access, August 1997 Edition

Station revenue significantly improved with large national ownership. 1996 average station revenue increased from less than one million dollars to $4.8 million dollars as company national

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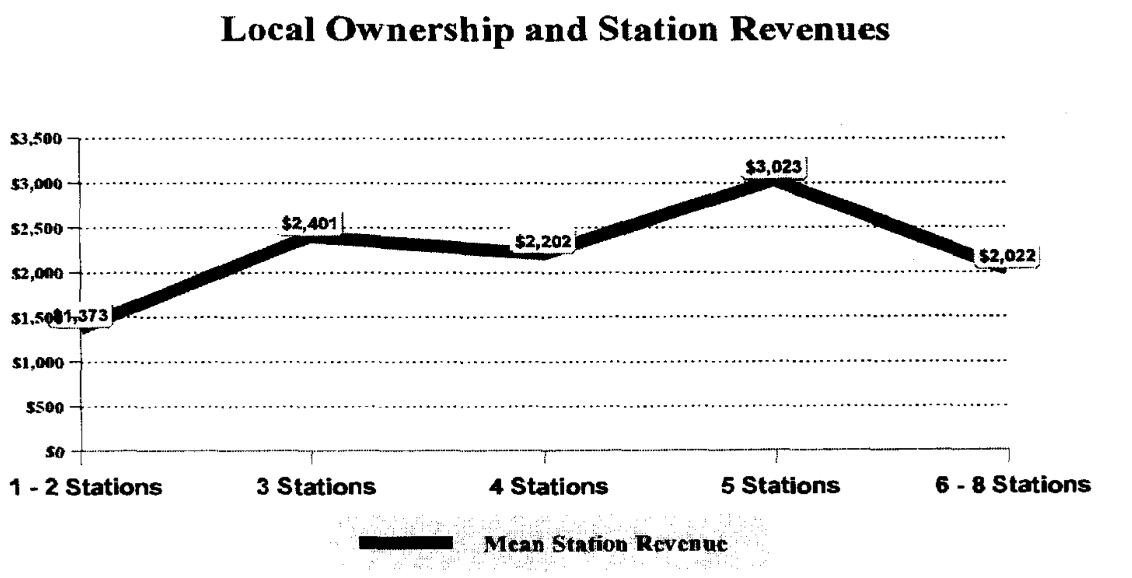
[223] All stations reporting revenue and listener information to the August 1997 edition of the BIA MasterAccess were analyzed. *See* Section I-D for the methodology of selection. The stations were divided into five groupings based upon the number of stations owned by the parent company in the local and national markets. For the national market the groupings were 1-2, 3-5, 6-17, 18-66, and 67-246 stations. The groupings for the local markets were 1-2, 3, 4-5, and 6-8 stations.

[224] *Station revenue* is gross station revenue for 1996 expressed in thousands. *Power ratio* is a measure of a station's ability to convert share of total market listeners into share of total market revenues (calculated by dividing the market revenue share by the local commercial share, *See* Glossary, Appendix K).

ownership increased from 1 to 2 stations to 67 to 246 stations.[225] There was no appreciable change in power ratio (1.13% to 1.14%).

An examination of local ownership also indicates a positive correlation between station revenues and ownership in the local market. In 1996 as company local station ownership increased, average station revenues increased from $1.4 million in the case of 1 to 2 locally owned stations to $3 million in the case of 5 local stations, then declined to $2 million in the case of 6 to 8 local stations (Chart F). There was a slight decrease in average power ratio (1.18% to 1.13%).

Chart N



Data: BIA Master Access, August 1997 Edition

The fact that owners with large number of stations are able to generate higher station revenues despite no corresponding change in the power ratio suggests a linkage between large company size and increased ability to obtain purchases and/or higher prices from advertisers. Further investigation is warranted to determine whether large firms condition the purchase of commercial time on one station upon additional purchases on other stations owned nationally or locally. Another area of inquiry is to determine whether large firms leverage their control of market share to raise advertising prices.

[225] For a similar analysis *see* BIA Research Inc., 1997 Radio State of the Industry Report.

This analysis implies that small firms are at a competitive disadvantage. Stations with large parent companies have greater revenue streams with which to hire the best on-air talent, to invest in program production and to spend on sales promotion. These competitive advantages ultimately work to the disadvantage of small and minority-owned firms.[226]

4. Market Consolidation, Advertising Practices and Access to Capital

In their responses to the survey questionnaire, minority broadcasters reported that local market consolidators enjoy strategic advantages that substantially impact on the advertising revenues of minority firms.[227] Survey participants were asked whether they were facing competition from a local market consolidator. Ninety- three percent of the respondents reported facing competition from an average of three local market consolidators. Sixty percent of the respondents indicated that they were facing direct competition from majority-owned consolidators that air minority-formatted programming.

The sizes of the three local market consolidators were reported to be five local stations for the first consolidation group, four for the second, and four for the third. These duopolies (or superduopolies), on average, are more than twice the size of duopolies owned by minority broadcasters.

In terms of competitive advantages associated with local market consolidation, minority broadcasters responded as follows (#1 denoted the highest level of importance):

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[226] The vast majority of minority-owned broadcasters are not market consolidators, defined in this study as companies who owned four or more stations in a local market. The few exceptions are Radio One, Inc., which owns four stations in both Washington, D.C. and Baltimore and accounted for 10% and 17% of the market revenues, respectively, in those two markets. The other exception is Spanish Broadcasting System, which owned six stations in Miami and accounted for 11% of that market's revenues. The market revenue shares of these companies were significantly less than the leading consolidators in these three markets— Infinity with 34% of the Baltimore market revenues, Clear Channel with 26% of the market revenues in Miami, and Chancellor with 30% of the market revenues in Washington, D.C. (Source: *Who Owns What?* Inside Radio, Inc., October 19, 1998.) Only nine percent of the respondents to the survey undertaken for this study reported the presence in their market of a minority broadcaster that qualified as a local market consolidator (see next footnote for definition).

[227] For the purpose of the survey questionnaire, a market consolidator was defined as a broadcaster that owns four or more stations in the local market and that controls 30% or more of the local market sales revenues.

Question: **Please describe any competitive advantages that local market consolidators have over your station in terms of their ability to solicit spot sales.**	**Average Response on a scale of 1 to 10** *(1 denotes the highest level of importance)*
Able to offer advertisers a wider range of demographics than your station.	2
Able to afford undercutting the price of your spot sales.	4
None	8

The practice of price undercutting involves offering ad agencies a price that is deliberately intended to undercut a competitors price. This practice may be employed by a consolidator that seeks to compete directly with the format of a minority broadcaster. By airing minority-formatted programming and undercutting the price of spot sales, a consolidator has a strategic advantage.

Consolidators generally offer a wide range of formats (*e.g.* news, country, urban, easy listening) on their local radio stations in order to reach a diverse set of demographics. This enables consolidator sales representatives to offer media buyers the ability to reach any consumer they wish to target with a media buy. Media buyers may find it convenient to negotiate a price with one sales person in order to reach all of their targeted audiences.

The survey participants were also asked to describe the impact, if any, that local market consolidators are having upon their station.

Question: What impact have local market consolidators had upon your station?	**Average Response on a scale of 1 to 10** *(1 denotes the highest level of importance)*
Taken sales away such that station revenues have significantly declined.	5
Taken away audience share such that listenership has significantly declined.	5
No impact	6

and,

Question: Do such practices interfere with the ability to raise capital to acquire minority-formatted stations? (check only one)	**Distribution of Responses**
Very much so.	44%
Moderately.	33%
Minimally.	18%
Not at all.	5%

The responses to the last two questions suggest that although minority broadcasters face direct competition from local market consolidators, they are experiencing only a moderate adverse impact in terms of listeners and revenues. Based upon the perception of the survey respondents, local market competition has less adverse impact than the effect of advertising practices involving "discounts" and "dictates."

The survey respondents were also asked to estimate the impact of "minority discounts" and "no Urban/Hispanic dictates" upon access to capital and station valuation.

Question: Do such practices detract from the market value of a minority-formatted station when it is being sold? (check only one)	**Distribution of Responses**
By a substantial amount.	44%
Moderately.	29%
Minimally.	25%
Not at all.	2%

Forty-four percent of the minority entrepreneurs responding to the survey believed that advertising practices detract by a substantial amount from their ability to raise capital to acquire new stations that will be used to air programming to the minority population. This is due, in part, to the anticipated adverse impact that advertising practices have upon the ability of such stations to attract advertising revenues. An equal number of survey respondents expressed their view that when a minority-owned station is sold, advertising practices regarding "no Urban/Spanish dictates" and "minority discounts," detract from the station's sales price by a substantial amount. This results, in part, from the adverse effects of advertising practices upon the revenues of stations that air programming targeted to the minority population.

D. Recommendations for Further Research

It is recommended that further statistical analysis be undertaken that is beyond the scope of this study. This study suggests that minority ownership, ownership size, and the racial/ethnic composition of the listening audience can be linked to the advertising performance of program formats. The relative impact of other variables has not been determined. Further analysis should attempt to isolate and quantify the effect of additional factors. Such factors should include:

- audience age, income and education;
- the market rank of the station;
- national revenues; and
- Station sales budgets, particularly the amount of expenditures for qualitative data used to overcome "no Urban dictates" and "minority discounts."

This study examined data averages for one year. However, the marketplace involves dynamic relationships that should be studied over time. Hence a time series analysis of the variables mentioned above should be undertaken.

Another important area warranting further investigation is whether there are substantial variances in the **general market cost per point**, paid to minority-formatted and general market stations. Such an analysis is necessary in order to determine whether advertisers, in general market ad campaigns, pay discounted rates to minority-formatted and/or minority-owned stations. The data necessary to perform such an analysis is generally proprietary, and CRF was not able to obtain it. A federal agency with jurisdiction over advertisers and ad agencies may have to use its subpoena powers to obtain such information.

On the basis of questions raised by this study concerning the impact of advertising practices on minority-owned and minority-formatted stations, CRF also recommends the following research initiative:

- A broader study, funded with sufficient resources, should be undertaken to analyze the impact of various factors on broadcasters' performance. Such an analysis will help the FCC identify whether there are impediments to entry and growth in the broadcast industry that warrant Commission action, and the reasons for those obstacles.
- The analysis should examine factors such as: the impact of ownership size on revenue and power ratios; advertising pricing variances (including cost per point variances) by format; the

racial/ethnic classification of the owner, and owner size; differences in quantity of advertising time made available by stations; consumer responsiveness to advertising on minority-targeted media compared to general market media; the extent to which a broad variety of formats are subjected to systematic "discounts," or "dictates" based on the audience served; the relationship between "dictates" or "discounts" and the range of formats on a broadcaster's stations; the extent to which "discounts" are based on audience income levels for various formats; the quantity of discounts experienced by minority-formatted stations and other formats, and their pervasiveness; the extent to which discounts may be related to station classifications of power and reach (*i.e.* AM or FM, Class A or Class C); the extent and pervasiveness of "no Urban/Spanish dictates," and the use of dictates for other formats.

- Additionally, the analysis should consider the impact of the race/gender of station, ad agency, advertiser and representative firm personnel; the practices of broadcast owners in competing against minority-formatted or minority-owned stations based upon misrepresentations and improper disparagements; the ownership of radio and television stations by women; whether stations targeting programming at women are subjected to similar practices in the advertising industry, and the influence of such factors.

- The analysis should also probe the use of media ratings services in advertising decisions, particularly unaccredited services. It should examine the effect of audience undercounting by media ratings services on the advertising performance of minority-owned and minority-formatted broadcasters. It should investigate the impact of advertising practices on viewers and listeners, *i.e.* whether they affect the availability of format, diversity of viewpoints on the airwaves, and broadcasters' service to the American public. Finally, the analysis should investigate whether minority or women owners encounter barriers based on race or gender, and whether any such findings justify remedial measures or incentives to remove barriers to market entry, growth and competition for small, minority and women-owned radio stations.

III. Minority-Owned Television

As noted earlier, the medium of television is not targeted to narrow audience demographics in the same way as radio. Consequently, efforts to analyze any linkage between televised minority-oriented programming and advertising practices bore evidence only with regard to such Spanish-language television stations. In response to questions concerning discriminatory advertising practices related to programming, one station wrote in the margin of the survey, "radio maybe, not television."

Problems related to researching the relationship between television programming and discriminatory advertising practices are compounded by the fact that a significant number of stations owned by African-Americans are Home Shopping Network affiliates that air continuous advertisements. Therefore, complaints about lack of advertiser support coming from these stations may stem from the unique nature of their program format and not from the racial or ethnic composition of their viewing audience.

Excluding the responses of the Home Shopping stations to the survey questions, CRF found only one Spanish-language station that alleged negative advertiser support due to its Spanish-language format and the minority composition of its viewing audience. A Spanish-language station located in a different market responded in just the opposite way—that it had not experienced lack of advertiser support for Spanish-language programming or its minority viewing audience.

The one Spanish-language station that reported negative advertising support for its programming noted that racial discrimination had been encountered in other forms as well. According to the General Manager of a television station in the south-west region, comments from advertisers such as the following are frequently heard:

Mexicans have bad credit, Mexicans cannot afford our product.[228]

With regard to the issue of whether minority sales staff or status as a minority owner have any bearing on the decision-making of advertisers, the response of the stations was divided and could not form the basis of any broad generalizations.

A. Results of the Survey Questionnaire

The survey questionnaire was completed by eleven stations.[229] While this number may be insufficient to support broad generalizations, the survey results contain widely varied responses regarding advertiser support. Station characteristics that account for some of the range of experiences with advertisers include Spanish-language format, continuous advertisement format, and market location. Further research in this area should attempt to control for these factors.

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[228] Survey submitted by station that has requested anonymity.

[229] The survey instrument was sent to all 30 television licensees identified by the U.S. Department of Commerce in 1997 as owned by minorities. Thus, the survey results are based upon completed questionnaires submitted by 36.6% of the sample universe.

1. The Relationship Between Minority-Oriented and Spanish Language Programming and Advertiser Support.

Of the eleven stations that responded to the survey, only two indicated that more than half of their programming is targeted to minority viewers. Both of these stations were Univision affiliates[230] that program a significant portion of their programming in the Spanish language.

In response to questions concerning discriminatory advertising practices related to programming, only a few stations noted that such practices might be related to programming in a language other than English or programming targeted to minority viewers. The two Spanish language stations provided opposite responses to this issue. Specifically, KLDO indicated that advertisers do ***not*** withhold support due to minority viewership or non-English programming. The other Spanish language station, KINT, responded just the opposite—that advertisers *do* withhold support due to minority viewership and also because of non-English programming.

Two stations owned by Granite Broadcasting,[231] neither of which air Spanish language programming or devote over half of their programming to minorities, provided responses that were consistent with KINT— that foreign language and minority targeted programming will adversely affect advertising performance. Granite Broadcasting station agreed that advertisers are less likely to patronize minority programming and non-English language programming. WTVH disagreed with those statements.

In summary, the response to the questions was as follows:.

Q. Does your station target more than half of its programming to minority viewers?
A. Yes (two stations)
A. No (nine stations)

and...

[230] Univision is the largest programmer of Spanish-language television in the U.S. The Univision Network is publicly-traded and non-minority-owned. Univision owns several stations, while other affiliates are independently owned but air Univision's programming.

[231] Granite Broadcasting is a minority-owned company that owned 12 television stations in 1997. *See,* BIA MasterAccess database, 1998. The majority of its programming is "general market" format.

Q. If your answer to question #1 is "no," is there another socio-economic audience segment toward which a majority of your programming is targeted?
A. Yes. (one station[232])
A. No (eight stations)

and...

Q. Do you believe that advertisers or their advertising agency representatives engage in practices to withhold advertising support to a station if they perceive the station's programming is targeted to the viewers described in questions 1 or 2?
A. Yes (two stations)
A. No (nine stations)

and...

Q. Do you believe that advertisers or their advertising agency representatives withhold advertising support to a station because the station's programming is in a non-English language?
A. Yes (three stations)
A. No (seven stations)

and...

Q. Do you know of specific advertisers or advertising agencies that view your programming and/or audience reached as negative factors which prohibit them from using your station as an advertising vehicle?
A. Yes (two stations)
A. No (nine stations)

[232] One Home Shopping Network affiliate indicated that its programming targets the general population and that no specific efforts are directed toward minority viewers.

The two stations that responded in the affirmative to the last question also indicated that advertiser support is either withheld or substantially discounted due to their programming. The Home Shopping Channel indicated that 71% or more of its advertising support is either withheld or discounted due to its programming. One of the Spanish language stations indicated that 25-30 percent of its advertising support is lost due to the nature of its minority-oriented programming.

These same two stations and an additional Home Shopping affiliate indicated that members of their sales staff have had encounters with ad agencies or advertisers that would "lead [one] to believe that [their] station's programming was a negative factor in obtaining advertiser support." In response to a question about the level of decision-making within the advertiser community, one Home Shopping affiliate attributed the lack of advertiser support to decision-making by ad agencies. The other Home Shopping affiliate attributed the lack of support to ad agencies as well as advertisers. Ad agencies were perceived as responsible for the lack of support, according to the Spanish-language station.

Only two stations estimated the amount of lost sales related to negative advertiser perceptions about minority-targeted programming. One Univision affiliate estimated lost sales at 17 percent. A Home Shopping affiliate estimated lost sales in excess of 60 percent. It should be noted that the programming of both of the Home Shopping affiliates is not targeted to minority viewers. It is presumed, therefore, that any negative perceptions on the part of advertisers are related to the continuous advertisements that are aired by these stations.

2. The Relationship Between Ownership and Control by Minorities and Advertiser Support

The response was divided on the question of whether ownership or control by minorities negatively affected advertiser support. Four of the eleven stations responded in the affirmative to the question, "Do you believe that advertisers or their advertising agency representatives engaged in practices to withhold advertising support to your station, if they perceive the station's ownership and control is by minorities?" WHSL, a Home Shopping affiliate in St. Louis, Missouri, and KINT,[233] a Univision affiliate in El Paso, Texas indicated that they knew of specific advertisers or agencies that view their station's ownership or control by minorities as negative factors that hinder advertiser support.

Questions related to ownership were completed by the latter two stations as follows; the other nine stations did not respond to these questions.

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[233] KINT is owned by Entravision Holdings LLC, an Hispanic broadcaster.

Q. Has anyone on your station's sales force reported or discussed any encounters with advertisers or their advertising agency representatives which would lead you to believe that your station's ownership and control by minorities as a negative factor in obtaining advertising support?
A. Yes (WHSL & KINT)

and...

Q. If you answered yes to question # 5, at which level in the decision making process do you believe your station's potential to obtain advertising support from advertisers or their advertising agency representatives was impaired?
A. Mostly from advertisers (KINT)
A. [Advertisers and ad agencies] evenly (WHSL)

and...

Q.Give an estimate of sales loss which can be attributable to advertisers or their advertising agency representatives perception of your station's ownership and control by minorities
A. 3% to 5% (KINT)
A. 61% or more (WHSL)

The next section summarizes the survey findings concerning minority sales personnel.

3. The Relationship Between Minority Sales Staff and Advertiser Support

Stations were asked to respond to questions concerning the experiences of minority sales staff in relationship to advertiser support. Four of the stations indicated that the race or ethnic background of their sales staff *does* have a bearing upon the decision-making of ad agencies or advertisers to support their station. Seven of the stations indicated that the race of the sales staff was ***not*** a factor. The first four stations also indicated that the minority status of their sales staff can have either a positive or a negative impact on the decision-making of advertisers. Specifically, in some instances, status as a minority sales person was a positive factor in encouraging sales, and in another set of instances the impact was negative.

The following questions were completed by only the four stations that indicated that the race or ethnic background of sales personnel has a bearing upon advertiser support.

Q. <u>What percent of cases</u> has the minority race or ethnic background of your sales representative had a **<u>negative</u>** bearing upon decision of an agency or advertiser to place an ad with your station?
A. 0% to 10% (two stations)
A. 11% to 30% (two stations)

and...

Q. <u>What percent of cases</u> has the minority race or ethnic background of your sales representative had a **<u>positive</u>** bearing upon decision of an agency or advertiser to place an ad with your station?
A. 0% to 10% (three stations)
A. 71% and above (one station)

Three of the television stations indicated that they knew of specific advertisers or ad agencies that had not supported their station due to the minority status of the salesperson. The same three stations also provided an indication of how frequently advertiser support is withheld due to the minorities in the sales force.

Q. If yes, please indicate the percentage of instances **during the course of a year** that advertising support is either withheld or substantially discounted because of the minority status of your salespeople.
A. 0% to 10% (one station)
A. 11% to 30% (three stations)

Four of the eleven stations also indicated that members of their sales force reported encounters with advertisers or ad agencies that led them to believe that the race or ethnic background of the salesperson contributed to the inability to obtain advertising. All four of the same stations reported that those difficulties stemmed from the advertisers themselves, as opposed to the ad agencies.

Five of the stations indicated that they experience a 0% to 10% loss in sales that can be attributed to advertiser or ad agency perceptions concerning the minority status of sales personnel representing the station.

As a summary question, the survey requested the stations to rate several factors that potentially affect the decision-making of agencies or advertisers. Averages for the responses provided by the eight stations that supplied answers to the question are as follows:

Question: To what extent do the following factors negatively influence advertiser or advertising agency decisions to advertise on your station?	**Average Rate on a scale of 1 to 10 (1 denotes highest level of importance)**
programming targeted to minority audience	8
programming targeted to [other specific audience demographics]	9
station ownership and control by minorities	10
race/gender of the account executive representing the station	8

The next section suggests areas for further research.

B. Recommendations for Further Policy Analysis

The survey instrument for this study was sent to all 30 television stations listed as owned by minorities by the U.S. Department of Commerce.[234] The eleven stations that elected to participate represent 36.6% of the sample universe. Given the small size of the survey response and the small number of minority television owners, future research should endeavor to achieve survey participation that is representative of the ethnic and network diversity that characterizes minority ownership.

In order to better understand the relationship between advertiser support and minority-owned television stations, follow-up research should control for certain factors that this study found to influence the findings: 1) non-English language (*e.g.* Spanish or Chinese) programming; 2) market location, which may influence perceptions regarding minority ownership; and 3) affiliation with the Home Shopping Network, which appears to cause reluctance on the part of some advertisers due to lack of entertainment and informational programming. Future research should also examine the impact of advertising practices on the choice of whether shows related to minorities are produced or aired, and

[234] *See,* NTIA Minority Broadcast Ownership Report, 1997. The report listed 20 African-American, 9 Hispanic, and 1 Asian owned television stations. Respondents to the survey included 9 African-American and 2 Hispanic-owned stations.

on the advertising performance of such shows. It should also examine the impact of advertising with regard to programming oriented toward women.

An additional issue that warrants further exploration is why so many African-American television owners are affiliated with the Home Shopping Network. An estimated 19% to 25% of the stations owned by African-Americans air 24-hour commercials.[235] Questions to be explored include whether capital market discrimination is preventing African-Americans from establishing affiliations with the major networks and program syndications. The extent to which African-Americans been able to migrate from HSN to the major networks should also be researched.

[235] Of the 20 African-American owned television licences listed in the U.S. Department of Commerce Minority Ownership Report for 1997, five were Home Shopping Network affiliates compared to four ABC, five NBC, two CBS, one Fox, and one World Broadcasting affiliates. One station was independent and the affiliation for one other was unknown.

This analysis implies that small firms are at a competitive disadvantage. Stations with large parent companies have greater revenue streams with which to hire the best on-air talent, to invest in program production and to spend on sales promotion. These competitive advantages ultimately work to the disadvantage of small and minority-owned firms.[226]

4. Market Consolidation, Advertising Practices and Access to Capital

In their responses to the survey questionnaire, minority broadcasters reported that local market consolidators enjoy strategic advantages that substantially impact on the advertising revenues of minority firms.[227] Survey participants were asked whether they were facing competition from a local market consolidator. Ninety- three percent of the respondents reported facing competition from an average of three local market consolidators. Sixty percent of the respondents indicated that they were facing direct competition from majority-owned consolidators that air minority-formatted programming.

The sizes of the three local market consolidators were reported to be five local stations for the first consolidation group, four for the second, and four for the third. These duopolies (or superduopolies), on average, are more than twice the size of duopolies owned by minority broadcasters.

In terms of competitive advantages associated with local market consolidation, minority broadcasters responded as follows (#1 denoted the highest level of importance):

[226] The vast majority of minority-owned broadcasters are not market consolidators, defined in this study as companies who owned four or more stations in a local market. The few exceptions are Radio One, Inc., which owns four stations in both Washington, D.C. and Baltimore and accounted for 10% and 17% of the market revenues, respectively, in those two markets. The other exception is Spanish Broadcasting System, which owned six stations in Miami and accounted for 11% of that market's revenues. The market revenue shares of these companies were significantly less than the leading consolidators in these three markets— Infinity with 34% of the Baltimore market revenues, Clear Channel with 26% of the market revenues in Miami, and Chancellor with 30% of the market revenues in Washington, D.C. (Source: *Who Owns What?* Inside Radio, Inc., October 19, 1998.) Only nine percent of the respondents to the survey undertaken for this study reported the presence in their market of a minority broadcaster that qualified as a local market consolidator (see next footnote for definition).

[227] For the purpose of the survey questionnaire, a market consolidator was defined as a broadcaster that owns four or more stations in the local market and that controls 30% or more of the local market sales revenues.

Question: **Please describe any competitive advantages that local market consolidators have over your station in terms of their ability to solicit spot sales.**	**Average Response on a scale of 1 to 10** *(1 denotes the highest level of importance)*
Able to offer advertisers a wider range of demographics than your station.	2
Able to afford undercutting the price of your spot sales.	4
None	8

The practice of price undercutting involves offering ad agencies a price that is deliberately intended to undercut a competitors price. This practice may be employed by a consolidator that seeks to compete directly with the format of a minority broadcaster. By airing minority-formatted programming and undercutting the price of spot sales, a consolidator has a strategic advantage.

Consolidators generally offer a wide range of formats (*e.g.* news, country, urban, easy listening) on their local radio stations in order to reach a diverse set of demographics. This enables consolidator sales representatives to offer media buyers the ability to reach any consumer they wish to target with a media buy. Media buyers may find it convenient to negotiate a price with one sales person in order to reach all of their targeted audiences.

The survey participants were also asked to describe the impact, if any, that local market consolidators are having upon their station.

Question: What impact have local market consolidators had upon your station?	**Average Response on a scale of 1 to 10** *(1 denotes the highest level of importance)*
Taken sales away such that station revenues have significantly declined.	5
Taken away audience share such that listenership has significantly declined.	5
No impact	6

and,

Question: Do such practices interfere with the ability to raise capital to acquire minority-formatted stations? (check only one)	**Distribution of Responses**
Very much so.	44%
Moderately.	33%
Minimally.	18%
Not at all.	5%

The responses to the last two questions suggest that although minority broadcasters face direct competition from local market consolidators, they are experiencing only a moderate adverse impact in terms of listeners and revenues. Based upon the perception of the survey respondents, local market competition has less adverse impact than the effect of advertising practices involving "discounts" and "dictates."

The survey respondents were also asked to estimate the impact of "minority discounts" and "no Urban/Hispanic dictates" upon access to capital and station valuation.

Question: Do such practices detract from the market value of a minority-formatted station when it is being sold? (check only one)	**Distribution of Responses**
By a substantial amount.	44%
Moderately.	29%
Minimally.	25%
Not at all.	2%

Forty-four percent of the minority entrepreneurs responding to the survey believed that advertising practices detract by a substantial amount from their ability to raise capital to acquire new stations that will be used to air programming to the minority population. This is due, in part, to the anticipated adverse impact that advertising practices have upon the ability of such stations to attract advertising revenues. An equal number of survey respondents expressed their view that when a minority-owned station is sold, advertising practices regarding "no Urban/Spanish dictates" and "minority discounts," detract from the station's sales price by a substantial amount. This results, in part, from the adverse effects of advertising practices upon the revenues of stations that air programming targeted to the minority population.

D. Recommendations for Further Research

It is recommended that further statistical analysis be undertaken that is beyond the scope of this study. This study suggests that minority ownership, ownership size, and the racial/ethnic composition of the listening audience can be linked to the advertising performance of program formats. The relative impact of other variables has not been determined. Further analysis should attempt to isolate and quantify the effect of additional factors. Such factors should include:

- audience age, income and education;
- the market rank of the station;
- national revenues; and
- Station sales budgets, particularly the amount of expenditures for qualitative data used to overcome "no Urban dictates" and "minority discounts."

This study examined data averages for one year. However, the marketplace involves dynamic relationships that should be studied over time. Hence a time series analysis of the variables mentioned above should be undertaken.

Another important area warranting further investigation is whether there are substantial variances in the **general market cost per point**, paid to minority-formatted and general market stations. Such an analysis is necessary in order to determine whether advertisers, in general market ad campaigns, pay discounted rates to minority-formatted and/or minority-owned stations. The data necessary to perform such an analysis is generally proprietary, and CRF was not able to obtain it. A federal agency with jurisdiction over advertisers and ad agencies may have to use its subpoena powers to obtain such information.

On the basis of questions raised by this study concerning the impact of advertising practices on minority-owned and minority-formatted stations, CRF also recommends the following research initiative:

- A broader study, funded with sufficient resources, should be undertaken to analyze the impact of various factors on broadcasters' performance. Such an analysis will help the FCC identify whether there are impediments to entry and growth in the broadcast industry that warrant Commission action, and the reasons for those obstacles.
- The analysis should examine factors such as: the impact of ownership size on revenue and power ratios; advertising pricing variances (including cost per point variances) by format; the

racial/ethnic classification of the owner, and owner size; differences in quantity of advertising time made available by stations; consumer responsiveness to advertising on minority-targeted media compared to general market media; the extent to which a broad variety of formats are subjected to systematic "discounts," or "dictates" based on the audience served; the relationship between "dictates" or "discounts" and the range of formats on a broadcaster's stations; the extent to which "discounts" are based on audience income levels for various formats; the quantity of discounts experienced by minority-formatted stations and other formats, and their pervasiveness; the extent to which discounts may be related to station classifications of power and reach (*i.e.* AM or FM, Class A or Class C); the extent and pervasiveness of "no Urban/Spanish dictates," and the use of dictates for other formats.

- Additionally, the analysis should consider the impact of the race/gender of station, ad agency, advertiser and representative firm personnel; the practices of broadcast owners in competing against minority-formatted or minority-owned stations based upon misrepresentations and improper disparagements; the ownership of radio and television stations by women; whether stations targeting programming at women are subjected to similar practices in the advertising industry, and the influence of such factors.

- The analysis should also probe the use of media ratings services in advertising decisions, particularly unaccredited services. It should examine the effect of audience undercounting by media ratings services on the advertising performance of minority-owned and minority-formatted broadcasters. It should investigate the impact of advertising practices on viewers and listeners, *i.e.* whether they affect the availability of format, diversity of viewpoints on the airwaves, and broadcasters' service to the American public. Finally, the analysis should investigate whether minority or women owners encounter barriers based on race or gender, and whether any such findings justify remedial measures or incentives to remove barriers to market entry, growth and competition for small, minority and women-owned radio stations.